



097075

~~75-0168~~

# *REPORT TO THE CONGRESS*



Audit Of United States  
Railway Association  
February 1 Through June 30, 1974

*BY THE COMPTROLLER GENERAL  
OF THE UNITED STATES*

RED-75-341

MARCH 21, 1975

~~702286~~

097075



COMPTROLLER GENERAL OF THE UNITED STATES  
WASHINGTON, D.C. 20548

B-164497(5)

9 To the President of the Senate and the  
Speaker of the House of Representatives

This is our report on the examination of the United States Railway Association's financial statements for the 5-month period ended June 30, 1974, which is required by the Government Corporation Control Act (31 U.S.C. 857).

We are sending copies of this report to the Director, Office of Management and Budget; the Secretary of Transportation; and the Chairman, Board of Directors, United States Railway Association.

A handwritten signature in cursive script, reading "James B. Axtell", is positioned above the title.

Comptroller General  
of the United States

## C o n t e n t s

	<u>Page</u>
DIGEST	i
CHAPTER	
1 INTRODUCTION	1
2 COMMENTS ON FINANCIAL STATEMENTS AND OPERATIONS Furniture, equipment, and building improvements not included as assets Accounting procedures being established for financial assistance programs	3
3 SCOPE OF AUDIT AND OPINION ON FINANCIAL STATEMENTS	4
FINANCIAL STATEMENTS	
Schedule	
1 Statement of financial condition, June 30, 1974	5
2 Statement of expenditures for the 5-month period ended June 30, 1974	6
3 Statement of obligations and commitments for the 5-month period ended June 30, 1974	7
4 Statement of changes in financial position for the 5-month period ended June 30, 1974	8
Notes to financial statements	9

APPENDIX

Principal officials of USRA  
having management responsi-  
bilities associated with  
matters discussed in this  
report

11

ABBREVIATIONS

CON RAIL	Consolidated Rail Corporation
GAO	General Accounting Office
USRA	United States Railway Association

COMPTROLLER GENERAL'S  
REPORT TO THE CONGRESS

AUDIT OF UNITED STATES  
RAILWAY ASSOCIATION  
February 1 through June 30, 1974

D I G E S T

WHY THE REVIEW WAS MADE

The United States Railway Association was created to develop and implement a plan to reorganize bankrupt railroads in the Midwest and Northeast. <sup>CNGOO</sup> C. 261

The Association, a nonprofit government corporation, was incorporated in the District of Columbia, February 1, 1974, under the Regional Rail Reorganization Act of 1973 (Public Law 93-236). (See p. 1.)

The Government Corporation Control Act requires GAO to audit the Association's financial statements and to report the results to the Congress. This is the first such report.

OPINION ON FINANCIAL STATEMENTS

In GAO's opinion, except that furniture, equipment, and building improvement costs were charged to operations in the period in which they were acquired instead of being capitalized, the accompanying financial statements present fairly the Association's financial position at June 30, 1974, and the results of its operation and the change in its financial position for the 5-month period then ended, in conformity with principles and standards of accounting prescribed by the Comptroller General of the United States.

GAO's opinion is qualified because the Association's policy of recording certain assets as expenses in the period acquired results in an understatement of assets. As of June 30, 1974, such assets were understated by \$109,561 because furniture, equipment, and building improvements were charged as an expense of the period. (See p. 3.)

OTHER MATTERS OF INTEREST

In December 1974, the Association borrowed \$3.4 million from the Federal Financing Bank to loan to the Consolidated Rail Corporation. The Corporation later purchased 12 locomotives which were then leased to the Lehigh Valley Railroad.

This was the Association's first program transaction under the Rail Reorganization Act of 1973. At the conclusion of GAO's audit work in December 1974, the Association had not established accounting procedures to record this and future program transactions. (See p. 3.)

RECOMMENDATIONS

This report contains no recommendations.

AGENCY ACTIONS AND UNRESOLVED ISSUES

In a February 14, 1975, letter, the Chairman of the Association told GAO that the Association was in the

process of recording furniture, equipment, and building improvements as assets. He also said that all system design work with respect to accounting for all of the financial assistance transactions authorized under the act had been completed. (See p. 3.)

MATTERS FOR CONSIDERATION BY  
THE CONGRESS

This report is submitted to the Congress, as required by law,

to disclose results of GAO's annual audit of the Association's financial statements and such other information as necessary to keep the Congress informed of the Association's operations and financial condition. This report contains no recommendations or suggestions requiring action by the Congress.

## CHAPTER 1

### INTRODUCTION

The United States Railway Association (USRA), a nonprofit Government corporation, was incorporated in the District of Columbia on February 1, 1974, under the Regional Rail Reorganization Act of 1973 (Public Law 93-236).<sup>1/</sup> USRA was created to develop and implement a plan to reorganize bankrupt railroads in the Midwest and Northeast.

The act authorized USRA to identify a rail service system adequate to meet these regions' needs and service requirements and to make recommendations for and assist in organizing railroads into an economically viable system. The act also requires the establishment of a for-profit corporation called the Consolidated Rail Corporation (Con Rail) to ultimately operate and modernize parts or all of the restructured system.

USRA is authorized to borrow up to \$1.5 billion to provide financial assistance under several programs established by the act. USRA can make loans to Con Rail, the National Railroad Passenger Corporation (AMTRAK), and other railroads which will operate in the final system; to financially troubled railroads whose lines connect with the railroads in the reorganization; and to State, local, or regional authorities who elect to continue operation of rail lines which would be discontinued under the final plan. During the planning process, USRA is also authorized to borrow \$150 million for interim assistance in rehabilitating the facilities and equipment of bankrupt railroads. As of June 30, 1974, USRA had not exercised any of its borrowing authority.

Pending the implementation of the final system plan, the act provides \$85 million in appropriated funds to the Secretary of Transportation for emergency grants to assist the railroads in the reorganization. Although USRA has no responsibility for such grants, it does work closely with the Department of Transportation in determining the need for assistance.

1/-----

Public Law 93-236 also made USRA subject to the Government Corporation Control Act by including it as a mixed-ownership Government corporation under 31 U.S.C. 856.

USRA is managed by an 11-member Board of Directors--3 Government officials and 7 non-Government members and a chairman who are appointed by the President and confirmed by the Senate. The Board of Directors did not assume office until July 11, 1974. During the interim period, the Government members--consisting of the Secretary of Transportation, the Secretary of Treasury, and the Chairman of the Interstate Commerce Commission--served as the Board of Directors. The principal officials of USRA during fiscal year 1974 are listed in the appendix.

In fiscal year 1974, USRA was appropriated \$18 million for operating and administrative expenses to remain available until spent. A public accounting firm developed USRA's accounting system to reflect the procedures required to administer and control USRA's appropriated funds. The system consists of a group of self-balancing accounts with obligated funds charged against the appropriation. The obligations are accounted for through eight expense groupings that represent administrative costs incurred by USRA for developing and implementing the final system plan.



## CHAPTER 2

### COMMENTS ON FINANCIAL STATEMENTS AND OPERATIONS

#### FURNITURE, EQUIPMENT, AND BUILDING IMPROVEMENTS NOT INCLUDED AS ASSETS

USRA acquired furniture, equipment, and building improvements valued at \$109,561 during the period of our audit. The costs of these acquisitions were charged to expenses rather than recorded as assets with continuing value. Consequently, USRA's financial statements are understated by \$109,561 and expenses are overstated by the same amount. At November 30, 1974, the value of such acquisitions had increased to \$382,415.

At a December 13, 1974, meeting, we told USRA that it improperly handled these transactions and that the value of assets should be charged to operations over the period of their useful lives rather than to operations in the period in which they were acquired. In a February 14, 1975, letter, the Chairman of USRA told GAO that USRA was in the process of recording furniture, equipment, and building improvements as assets.

#### ACCOUNTING PROCEDURES BEING ESTABLISHED FOR FINANCIAL ASSISTANCE PROGRAMS

As of June 30, 1974, USRA's financial transactions involved only appropriated funds for administrative expenses. However, in December 1974, USRA borrowed \$3.4 million from the Federal Financing Bank to loan to Con Rail. Con Rail later purchased 12 locomotives which were then leased to the Lehigh Valley Railroad. This was the first transaction in which USRA used its authority to make loans to help rehabilitate railroads in the Midwest and Northeast. At the conclusion of our audit work in December 1974, USRA had not established accounting procedures for this type of transaction.

In a February 14, 1975, letter, the Chairman of USRA told GAO that USRA had completed all system design work with respect to accounting for all of the financial assistance transactions authorized under the act.

### CHAPTER 3

#### SCOPE OF AUDIT AND OPINION ON FINANCIAL STATEMENTS

We examined USRA's financial statements for the 5-month period ended June 30, 1974. We conducted our audit in accordance with generally accepted auditing standards and included such tests of USRA's accounting records and financial transactions and such other auditing procedures as we determined necessary, considering the effectiveness of USRA's internal control systems which, as of June 30, 1974, did not include any major involvement by USRA's Office of Audits.

In our opinion, except that furniture, equipment, and building improvement costs were charged to operations in the period in which they were acquired instead of being capitalized, the accompanying financial statements present fairly USRA's financial position at June 30, 1974, and the results of its operation and the change in its financial position for the 5-month period then ended, in conformity with the principles and standards of accounting prescribed by the Comptroller General of the United States.

## UNITED STATES RAILWAY ASSOCIATION

## STATEMENT OF FINANCIAL CONDITION

JUNE 30, 1974

## ASSETS

Appropriation warrant		\$12,000,000
Letter of credit	\$6,000,000	
Less withdrawals	<u>1,200,000</u>	4,800,000
Cash in bank		93,756
Petty cash		1,000
Employee travel advances		2,776
Prepaid expenses and other assets		<u>25,425</u>
Total assets		<u>\$16,922,957</u>

## LIABILITIES AND EQUITY

Liabilities:		
Accrued personnel and travel expenses		\$ 182,441
Payroll taxes withheld and accrued		<u>8,888</u>
Total liabilities		<u>191,329</u>
Equity:		
Appropriation		18,000,000
Less obligations through June 30, 1974		<u>2,950,596</u>
Unobligated budget authority	a/	15,049,404
Undelivered orders:		
Obligations through June 30, 1974	\$2,950,596	
Less expenditures through		
June 30, 1974	<u>1,268,372</u>	<u>1,682,224</u>
Total equity		<u>16,731,628</u>
Total liabilities and equity		<u>\$16,922,957</u>

a/ Unobligated budget authority is represented by:		
Commitments for administrative ex-	\$1,558,716	
penses		
Commitments for contractual services	<u>2,506,056</u>	\$ 4,064,772
Balance available for administrative		
expenses	4,815,203	
Balance available for contractual		
expenses	<u>6,169,429</u>	<u>10,984,632</u>
		<u>\$15,049,404</u>

The notes to financial statements on page 9 are an integral part of this statement.

## SCHEDULE 2

## UNITED STATES RAILWAY ASSOCIATION

STATEMENT OF EXPENDITURES  
 FOR THE 5-MONTH PERIOD ENDED  
 JUNE 30, 1974

<u>Organization</u>	<u>Per- sonnel costs</u>	<u>Adminis- trative services</u>	<u>Contrac- tual services</u>	<u>Total</u>
Office of the Chairman	\$ 28,723	\$ 3,594	\$ -	\$ 32,317
Office of the President	29,348	1,211	118,046	148,605
General Counsel	32,825	1,657	144,920	179,402
Administration	227,175	242,103	80,970 a/	550,248
Review and Eval- uation	27,967	2,686	-	30,653
Public and Govern- mental Affairs	57,192	1,248	-	58,440
Congressional Rela- tions	7,754	-	-	7,754
Financial Planning	34,265	2,179	-	36,444
Operations and Fa- cilities Planning	215,164	9,345	-	224,509
Manpower Planning	-	-	-	-
	<u>\$660,413</u>	<u>\$264,023</u>	<u>\$343,936</u>	<u>\$1,268,372</u>

a/ Includes funds for common facilities and services for the organization; e.g. space, building alterations, furniture, equipment, utilities, communications, and supplies.

The notes to financial statements on page 9 are an integral part of this statement.

## SCHEDULE 3

## UNITED STATES RAILWAY ASSOCIATION

## STATEMENT OF OBLIGATIONS AND COMMITMENTS

FOR THE 5-MONTH PERIOD ENDED

JUNE 30, 1974

<u>Organization</u>	<u>Obligations</u>	<u>Commitments</u> <u>(note a)</u>	<u>Total</u> <u>(note a)</u>
Office of the Chairman	\$ 32,286	\$ 48,309	\$ 80,595
Office of the President	159,022	b/2,550,370	2,709,392
General Counsel	179,402	51,002	230,404
Administration	1,146,248	521,646	c/1,667,894
Review and Evaluation	30,407	54,014	84,421
Public and Governmental Affairs	58,668	149,238	207,906
Congressional Relations	7,754	26,494	34,248
Financial Planning	38,502	99,207	137,709
Operations and Facilities Planning	1,298,307	564,492	1,862,799
Manpower Planning	<u>-</u>	<u>-</u>	<u>-</u>
Total	<u>\$2,950,596</u>	<u>\$4,064,772</u>	<u>\$7,015,368</u>

a/ Based on existing procurement actions and estimated cost of current personnel through December 31, 1974.

b/ All contractual services commitments are reported under the Office of the President.

c/ Includes funds for common facilities and services for the organization; e.g. space, building alterations, furniture, equipment, utilities, communications, and supplies.

The notes to financial statements on page 9 are an integral part of this statement.

SCHEDULE 4

UNITED STATES RAILWAY ASSOCIATION  
STATEMENT OF CHANGES IN FINANCIAL POSITION  
FOR THE 5-MONTH PERIOD ENDED JUNE 30, 1974

Source of Funds:

Appropriations	\$18,000,000
----------------	--------------

Application of Funds:

Expenditures (SCHEDULE 2)	<u>1,268,372</u>
---------------------------	------------------

Unexpended Funds	<u>\$16,731,628</u>
------------------	---------------------

The notes to financial statements on page 9 are an integral part of this statement.

UNITED STATES RAILWAY ASSOCIATION  
NOTES TO FINANCIAL STATEMENTS  
June 30, 1974

1. Summary of Significant Accounting Policies

Obligations are recorded on the basis of executed contracts or purchase orders. Unliquidated obligations are represented by obligations less expenditures.

Commitments are recorded when funds are administratively reserved based on request for the purchase of goods or services. Once a procurement request results in the issuance of a firm contract or purchase order, the commitment is eliminated and an obligation established. Commitments for administrative cost include the projected cost of personnel currently on the roles from the date of this report through December 31, 1974.

Expenditures are recorded on the accrual basis of accounting and include the liability for goods or services received but not paid.

Budget represents a tentative allotment of the Association \$18 million appropriation.

Office Furniture and Equipment are reported as expenses in the period such assets are acquired.

2. Appropriations

Public Law 93-236 authorized to be appropriated to the United States Railway Association for administrative expense such sums as are necessary, not to exceed \$26,000,000, to remain available until expended. Congress has appropriated \$18 million for administrative expenses for the Association.

PRINCIPAL OFFICIALS OF USRA  
HAVING MANAGEMENT RESPONSIBILITIES  
ASSOCIATED WITH MATTERS  
DISCUSSED IN THIS REPORT

	<u>Tenure of Office</u>	
	<u>From</u>	<u>To</u>
Chairman, Board of Directors Arthur D. Lewis (note a)	July 23, 1974	Present
President and Chief Operating Officer Edward G. Jordan	March 5, 1974	Present
Vice President for Administration Alan L. Dean	March 18, 1974	Present
Treasurer (note b) Alan L. Dean	July 11, 1974	Present
Comptroller W.H. Bozman	June 3, 1974	Present

a/Prior to this confirmation date Mr. Lewis served USRA as a consultant.

b/Mr. William S. Heffelfinger, presently Assistant Secretary for Administration, Department of Transportation, served as Acting Treasurer until July 11, 1974.



Copies of GAO reports are available to the general public at a cost of \$1.00 a copy. There is no charge for reports furnished to Members of Congress and congressional committee staff members, officials of Federal, State, local, and foreign governments, members of the press, college libraries, faculty members, and students, and non-profit organizations.

Requesters entitled to reports without charge should address their requests to:

U.S. General Accounting Office  
Distribution Section, Room 4522  
441 G Street, NW.  
Washington, D.C. 20548

Requesters who are required to pay for reports should send their requests with checks or money orders to:

U.S. General Accounting Office  
Distribution Section  
P.O. Box 1020  
Washington, D.C. 20013

Checks or money orders should be made payable to the U.S. General Accounting Office. Stamps or Superintendent of Documents coupons will not be accepted. Please do not send cash.

To expedite filling your order, use the report number in the lower left corner of the front cover.